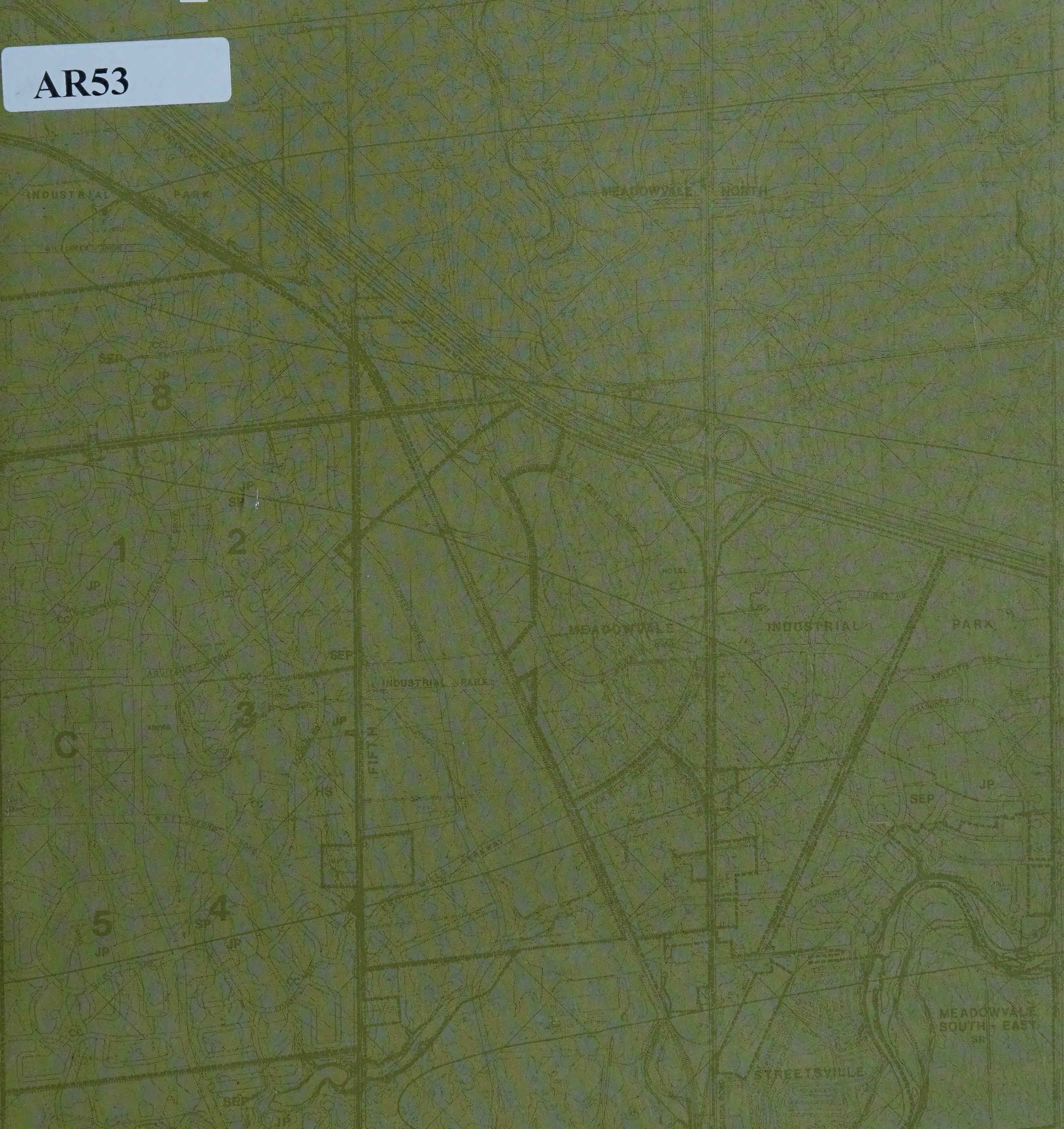
Markborough Properties

1974 Annual Report



Highlights

	1974	1973
Operating results for the year		
Revenue from land operations	**$12,914,800**	$29,448,700
Revenue from income properties	**7,036,500**	6,132,600
Income before taxes	**7,424,700**	12,376,400
Net income after taxes	**3,528,700**	6,065,400
Per common share (weighted average):		
Net income after taxes	**$0.88**	$1.53
Cash flow from operations	**0.98**	3.15*

*Re-stated from $2.96 for comparative purposes

	1974	1973
Financial position at the year-end		
Undeveloped land	**$60,458,400**	$34,735,500
Income properties	**46,155,200**	40,198,500
Bank debt	**3,980,300**	—
Amounts payable under land purchase agreements	**4,291,600**	590,300
Mortgage and debenture debt	**66,372,300**	55,951,900
Share capital	**20,956,300**	20,694,800
Retained earnings	**13,184,600**	9,655,900
Statistical at the year-end		
Common shares outstanding	**4,002,499**	3,959,199
Number of shareholders	**325**	1,872
Ratio of income properties to land held for development	**.8 to 1**	1.2 to 1
Ratio of debt to equity	**2.2 to 1**	1.9 to 1

Contents

Dear Shareholder

A year ago I reported to you on the best year we ever had. At that time I mentioned that our industry could be jeopardized by the continued climb in costs and interest rates or by a marked downturn in the business cycle because of energy and basic material shortages. While I did not expect this to happen, these and other factors in 1974 produced a year which did not meet our expectations.

Our earnings were substantially lower than in the previous year, 88¢ per share compared to $1.53. Our cash flow declined from $3.15 per share to 98¢. Our increase in profits from income properties and interest and other income, which together improved from $1,212,000 to $3,175,000 was not sufficient to offset the sharp drop in profit from land operations.

Residential and industrial land sales declined from $29,400,000 to $12,900,000. Although much below our target for the year, we did achieve the second highest level of land sales in our nine year history.

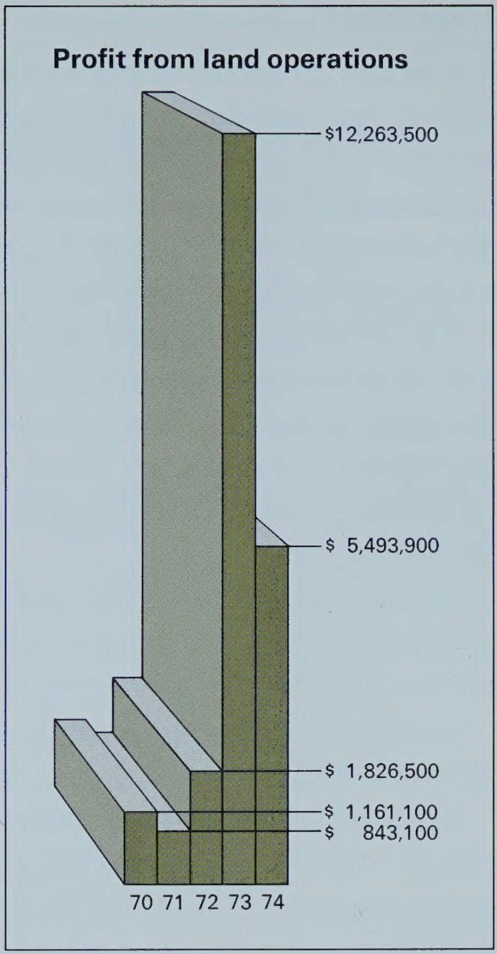
Land sales are dependent upon the registration of subdivision plans and upon an active and healthy housing market.

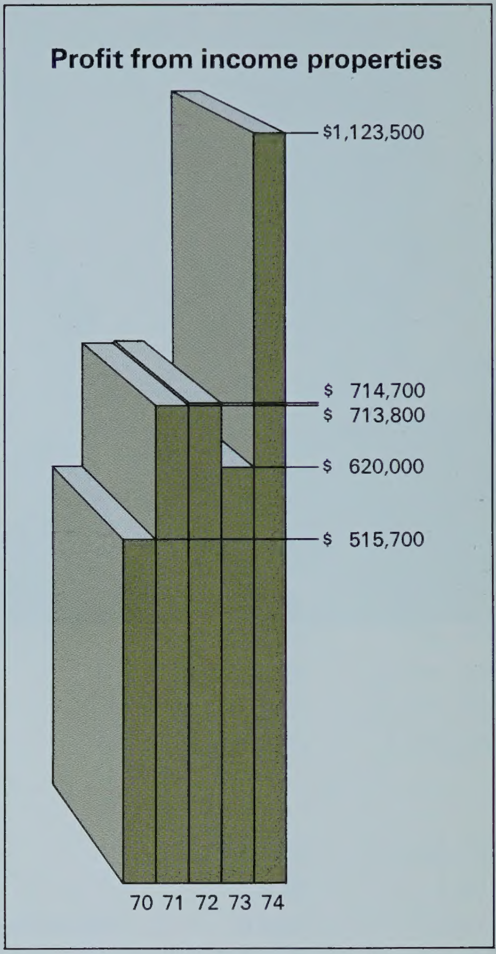
We were not able to register as much land during the year as we had hoped. Constant efforts are being made by municipal and provincial governments to expedite the registration process, but it is still very time-consuming. Delays are frustrating and costly. We will continue to urge refinement of this process in the interests of bringing serviced land on the market at lower cost.

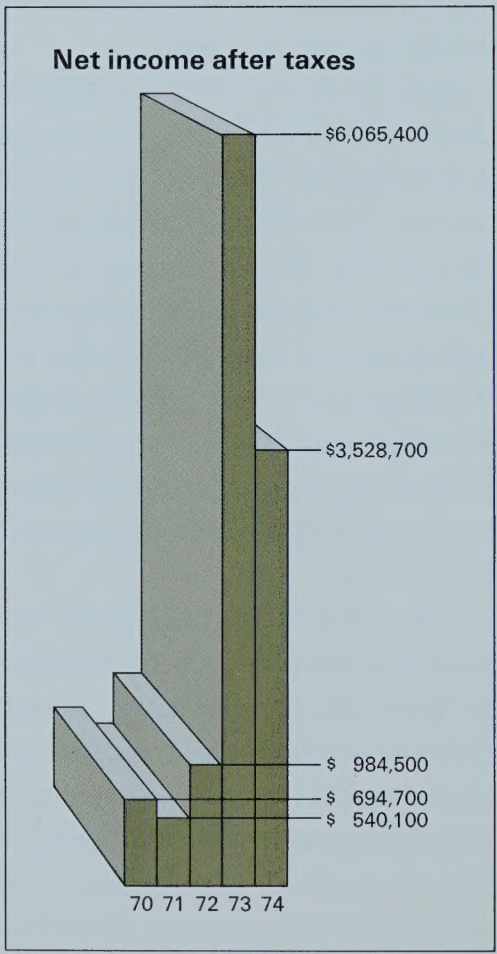
Activity in our industry declined in 1974. This was due to the uncertainties which developed during the year in the economy generally and, of particular interest to us, in the Ontario housing market. Last April, the Ontario Government introduced its Land Speculation Tax Act and a new Land Transfer Tax Act.This legislation presented serious problems for the real property and mortgage industries and brought activity to a virtual standstill for some months. We also experienced rapidly increasing interest rates and deteriorating economic conditions. I am pleased to report that recent modifications to the Ontario legislation have removed most of the damaging provisions and there are indications that interest rates are moving to lower levels.

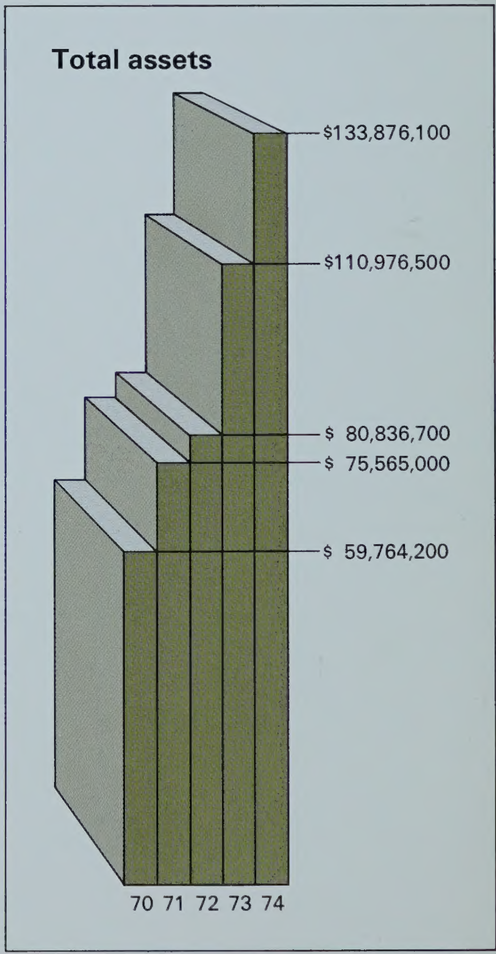
I should comment briefly on our reduced cash flow. In previous years cash flow has always been substantially in excess of earnings because we were able to defer most of our current year's tax provision. In 1974 this was not possible. In our industry, income tax payments are related to cash realizations. The cash realized in 1974 on current and previous years' land sales was significantly higher in relation to earnings. Therefore, the amount of deferment was greatly reduced. In addition, we have taken into account the increase in taxes currently payable which

Five Year Growth Pattern









results from a proposed change in the Federal Income Tax Act.

Last Fall the Federal Finance Minister announced a budget proposal prohibiting the deduction for tax purposes of interest and other carrying charges incurred on land inventory. According to the Finance Minister, this would result in developers putting serviced land on the market at a faster rate, thus reducing its cost. I doubt if Mr. Turner has been properly advised. We and other development companies strive vigorously to obtain registration and to market our land as quickly as possible. We do not withhold serviced land from the market. Land is marketed once it is registered and delays in registration are beyond the control of the developer.

This legislation will result in a higher, not lower, cost to the home buyer because of the expense of the additional financing required. Financing of what is already a very capital intensive business has been made more difficult at a time when capital finance is expensive and difficult to come by. We would urge Mr. Turner to reconsider this proposal. Is it reasonable that the interest we pay for carrying land, on which the recipient pays tax, is non-deductible by us on a current basis?

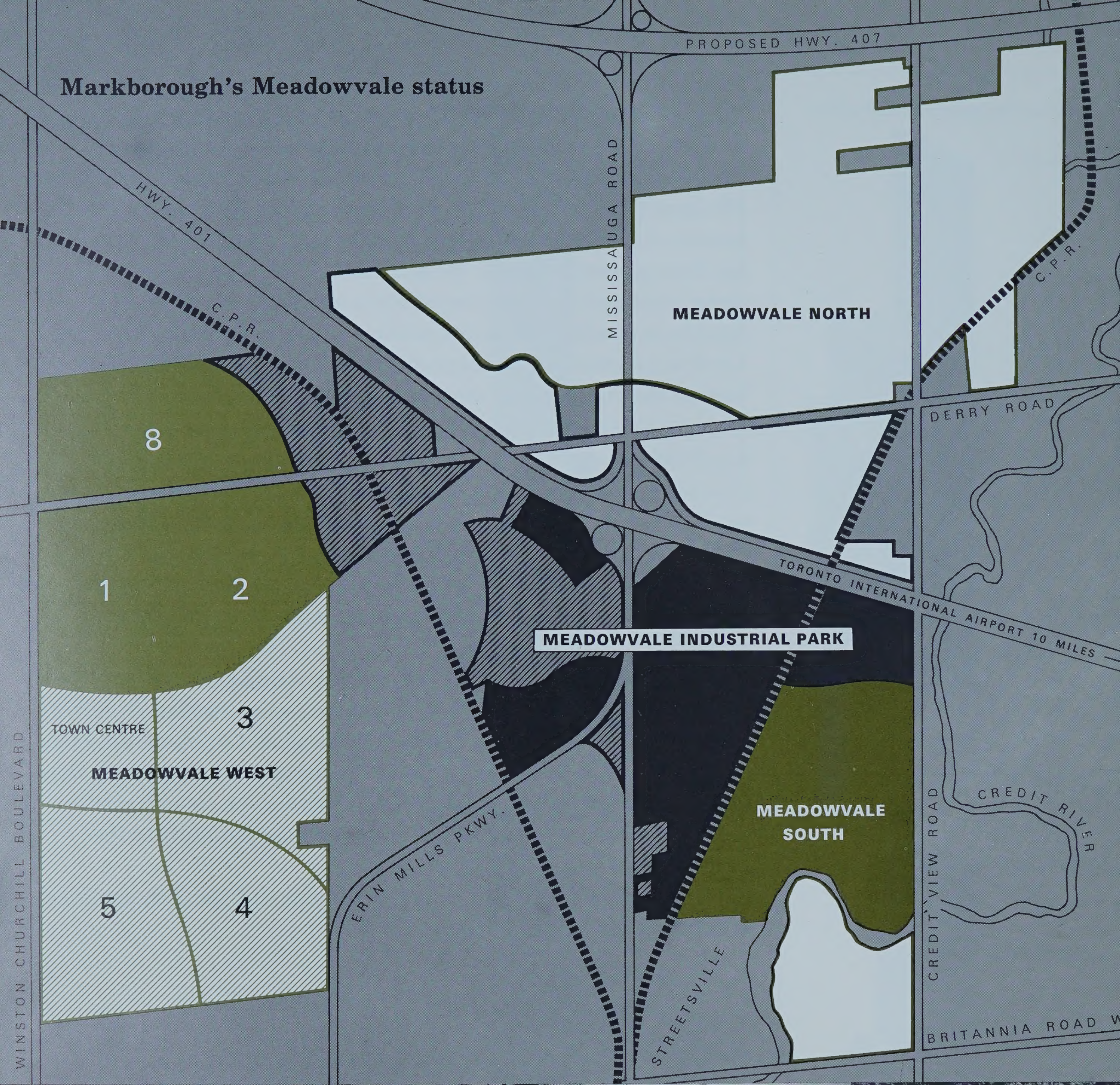
It is difficult to predict the trend of the housing market in 1975. With some reduction in interest rates, I would expect an increase in activity. There is still a strong latent demand for housing. I think the economic outlook will improve and if so, we can look forward to an acceleration of this increased activity. In any event, you may be assured that we will pursue every opportunity to increase the profitability of the Company.

I would like to thank our management and staff for their continued efforts on behalf of the Company.

B.R.B. Magee

B.R.B. Magee, President. January 31, 1975

Markborough's Meadowvale status



Land sales during the year totalled $12,900,000. About $5,300,000 were represented by residential sales in Meadowvale and about $3,800,000 by sales or expropriations of a major part of our Markham lands. Of the balance, industrial sales accounted for $3,200,000.

Development of our Meadowvale project continued to be the focal point of our land development activities during the year. On January 1, 1974 the Regional Municipality of Peel was formed. This resulted in the re-organization of the local municipal boundaries in the Meadowvale area.

Kenneth C. Comyns, Vice-President in charge of our Land Division, states that with the co-operation of the new City of Mississauga and the Region of Peel, we were able to continue our development program. The east half of our third phase in Meadowvale West, Neighbourhood 8, was registered during the year. The west half was registered soon after the year-end. This neighbourhood, which will accommodate 1,110 housing units, has been serviced and the land is available for sale. One sale was booked prior to the year-end, a multiple block of 48 townhouses to Polysar Limited.

The remaining four neighbourhoods in Meadowvale West provide for more than 5,000 housing units and approximately 400,000 sq. ft. of retail commercial space in the Town Centre. These neighbourhoods are being processed towards registration.

During the summer, the first residents began to move into their new homes in the first two neighbourhoods of Meadowvale West. Servicing and park development in these two neighbourhoods was completed during the year and it is anticipated that one of the day-care centres will be under construction in 1975. One church site was sold, and another is committed for sale in the coming year.

We own approximately 1,100 acres in the proposed Meadowvale North community, located on the north side of Highway 401. This community is now in the detailed planning stage. An application has been submitted to the City of Mississauga for an Official Plan Amendment to permit development of this area. Our land will provide 6,100 housing units for a population of 21,000. It will also contain approximately 290 acres of industrial and commercial land.

Plans for the area are designed to accommodate the Provincial Parkway Belt along the northern boundary, the proposed 500 KV hydro transmission line and future Highway 407. We have applied to the Regional Municipality of Peel to extend the trunk sanitary sewer along the Credit River valley to service the area. This sewer is to be constructed by the Province as provided in the South Peel servicing scheme.

We have scheduled the development of our Meadowvale North

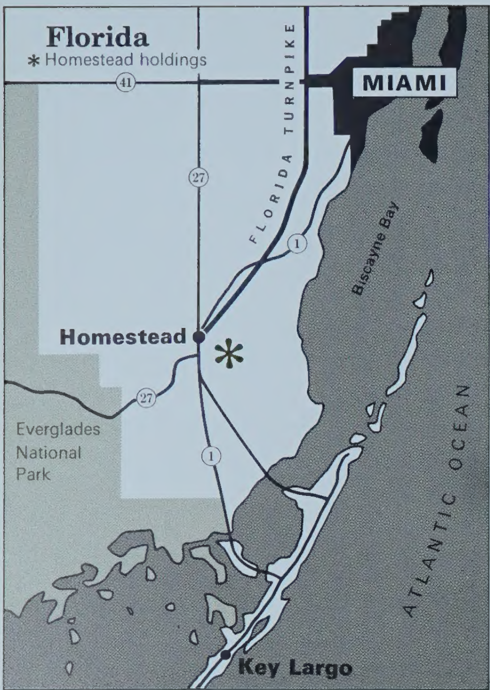
Residential and Commercial

- Registered
- Under Development
- Future Development

Industrial

- Registered
- Under Development
- Future Development

Meadowvale puts more of what makes a home . . . around a home.



Homestead, Florida . . . the southernmost development of its kind in the State.

Donald Prowse visits the site of the new Capital of Tanzania with Mr. C. G. Kahama, Director General of the Capital Development Authority and Mr. Macklin L. Hancock, Chairman, Project Planning Associates Limited.

lands to commence in 1978.

More than 26,600 people visited our Meadowvale Information Pavilion during the year including 1,200 High School and University students. It contains sales areas for Meadowvale builders and continues to be most valuable for industrial sales and other promotional activities. Church services are held in the Pavilion theatre pending construction of permanent facilities. The models and audio-visual displays are updated on a regular basis to reflect the progress of the Meadowvale project.

The Company has acquired a half interest in 2,800 acres in the City of Homestead, 25 miles south of Miami in Florida. The site is strategically located at the junction of the Florida Turnpike and U.S. 1, close to Everglades National Park at the gateway to the Florida Keys. It is being planned for our partners and ourselves by Project Planning Associates Limited of Toronto and Post, Buckley, Schuh and Jernigan of Miami. Markborough is responsible for the management of the project.

The community is being planned for a population of 42,000 people. In addition to a full range of housing, it will contain complete educational and recreational facilities, churches, shopping centres, office buildings and an industrial park. The design provides for a system of lakes and waterways which will permit many homes to have water frontage.

Other Land Division activity in Ontario during the year included obtaining approval in principle by the Town of Whitby for the development of Langmaid Meadows. This project includes approximately 900 housing units to be developed in two phases over a three year period. We expect registration of the first phase in 1975.

Our 217 acre Durham Heights project is still in the planning stage, as is our 545 acre property at Brooklin. Development of our lands in Oakville and Burlington is being pursued with the local and regional government authorities.

In Cleveland, Ohio, Markborough's joint venture development of residential estate lots is proceeding satisfactorily.

The Company's record in community planning and development prompted an invitation from the Government of Tanzania in East Africa to advise on the relocation of its capital. It is proposed to move the seat of Government from Dar es Salaam the present capital on the Indian Ocean to Dodoma in the interior about 250 miles to the West. The problems involved in creating the new capital city of 350,000

Meadowgreen Market, Meadowvale South.

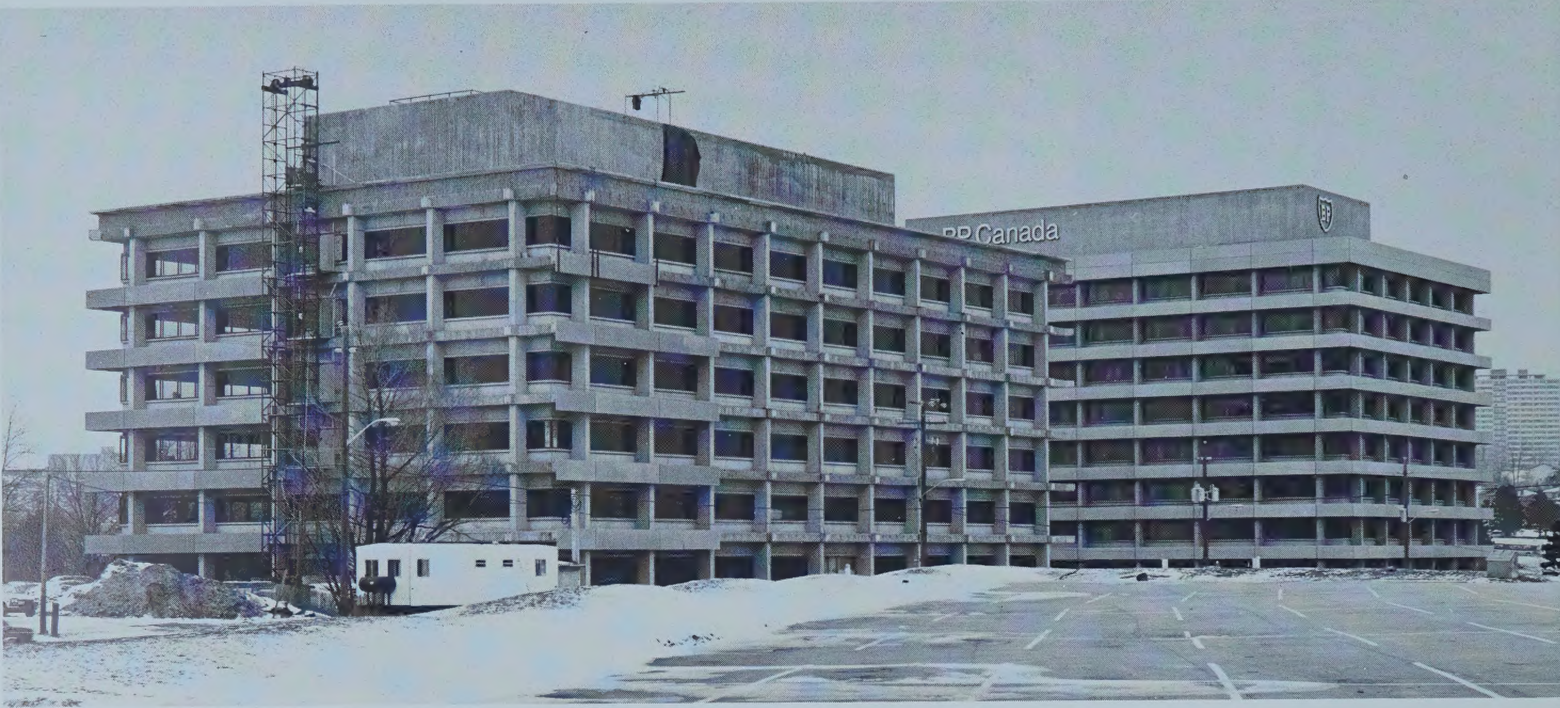
people are many and at the Government's request Markborough's senior management visited both cities to observe and comment on the project. We are now considering a proposal from the Tanzanian Government to participate in this undertaking.

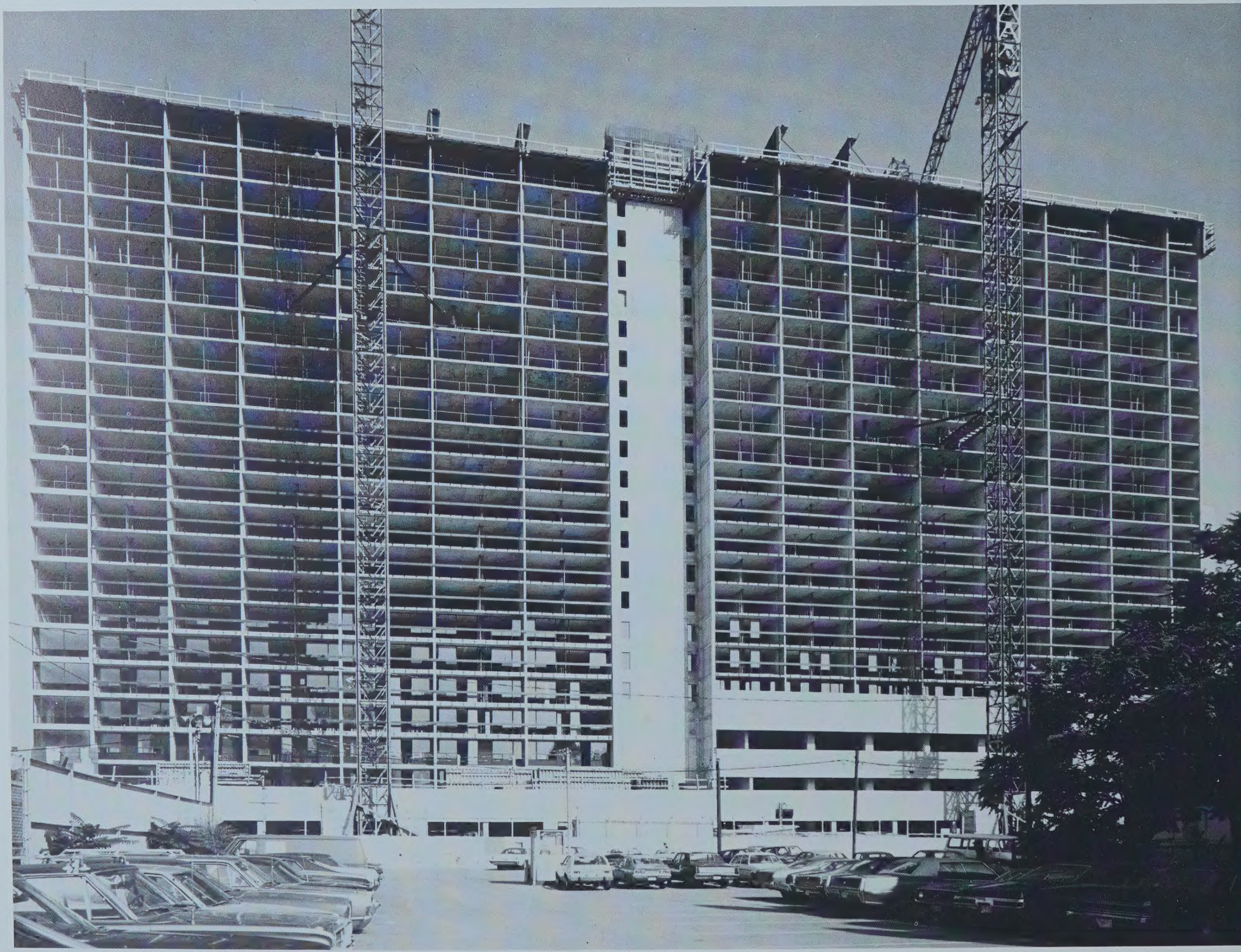
The Company's Commercial Division under the direction of John B. Alguire, Vice-President, is responsible for the development and leasing of office buildings, apartment buildings and shopping centres. The Division is also responsible for the management of all income properties owned by the Company.

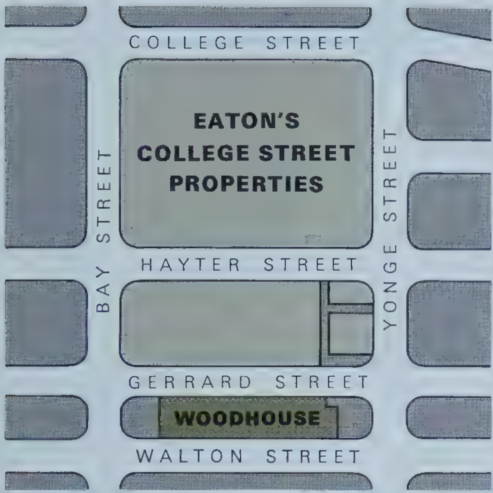
In 1974 two small shopping centres were completed in Meadowvale; Meadowgreen Market in Meadowvale South and Maplewood Market in Meadowvale West.

Plans are well advanced for the 67acre Town Centre in the Meadowvale West community. This multi-use complex will be the major centre of activity for the 75,000 people who will eventually reside in the area. The feature of the Centre will be the Town Square, an open, active, landscaped area around which will be grouped a shopping centre, recreational facilities, an inter-denominational church campus, library, office buildings, an hotel and a residential complex. Construction of the first phase of the shopping centre, 100,000 sq. ft., is scheduled to begin in 1975.

A view from the Square, Meadowvale West Town Centre. An artist's conception.


BP Canada





Complementing and adjacent to the Town Centre, a 12 acre lake is being constructed. It will be surrounded by a community park and residential development.

We had hoped that construction of our 260,000 sq. ft. shopping centre in the Brimley Forest area of Scarborough would be underway by the year-end. This was not the case, since the development of the area has been somewhat slower than anticipated. However, a site plan has now been submitted to the Borough and construction of the first phase is scheduled to commence in 1975. The centre is to be called Woodside Square.

During the year we began construction of 220 Duncan Mill Road, the second phase of our Duncan Mill Place complex in North York. This six storey office building is now nearing completion and will be available for occupancy in March of this year. We had hoped that it would be leased to a single tenant. This now appears unlikely and we are proceeding with a vigorous leasing program on a multi-tenancy basis.

Phase I of the complex, 240 Duncan Mill Road, is 98% leased.

Both buildings offer column-free space on all floors, a feature that allows wide scope for interior design and office layout.

During the year the Company acquired an interest in the Eaton's College Street property, in association with the London Life Insurance Company, C.N. Pension Trust Fund, the T. Eaton Company Limited and A. E. LePage Limited.

The site represents the last sizeable development property available within the midtown area of downtown Toronto, and we anticipate development of an innovative scheme which will become one of the outstanding landmarks of the City. Among the components likely to be included are office buildings, retail stores, apartments, an hotel and ancillary services.

The properties consist of two entire city blocks, bounded by College, Yonge, Gerrard and Bay Streets. The area is just under 11 acres. Two stores fronting on Yonge Street and a public lane, totalling 8,200 sq. ft., are not included in the purchase but this will not have a detrimental effect on the development of the site.

A second purchase in downtown Toronto was made in 1974 by all the principals holding an interest in the College Street property, with the exception of the T. Eaton Company. This building now under construction is on Gerrard Street between Yonge and Bay Streets opposite the southerly boundary of the Eaton's College Street site.

Top left. Duncan Mill Place.

Left. The Woodhouse Project.

A model of the proposed Centennial Gardens, Winnipeg.

The property, known as Woodhouse, consists of two adjoining towers, one having 25 storeys and the other 23 storeys. It is planned as an apartment hotel containing 532 hotel units and 288 apartments. The structural work is completed and "topping-off" has recently taken place.

Plans for the development of the St. Paul's College site in downtown Winnipeg have now been approved by the City. The proposed Centennial Gardens project contains two apartment towers, low-rise apartments and townhouses, an office building, hotel and shopping complex. A two-acre park will be located over underground parking facilities in the centre of the project. The approval represents a major step in the development of the property, but much additional work remains to be done, such as the completion of a Development Agreement and financing arrangements.

Summary of Income Properties at October 31, 1974

Metropolitan Toronto

Apartments

RIDEAU TOWERS I (50% SHARE)	49 THORNCLIFFE PARK DRIVE	SUITES 400
RIDEAU TOWERS II (50% SHARE)	53 THORNCLIFFE PARK DRIVE	279
THE SOMERSET	605 FINCH AVENUE WEST	243
THE CLARION	20 REDGRAVE DRIVE	178
THE WESTWAY	416 THE WESTWAY	102
WESTWAY MAISONETTES	65 SANDWELL DRIVE	16
THE WESTERHAM	63 CALLOWHILL DRIVE	112
311 DIXON ROAD	311 DIXON ROAD	173
MARTINWAY TOWERS (70% SHARE)	695 MARTINGROVE ROAD	141
	60 CALLOWHILL DRIVE	141

Commercial/Industrial

OFFICE BUILDING	7 OVERLEA BOULEVARD	SQ. FT. 150,000
OFFICE BUILDING	15 OVERLEA BOULEVARD	160,000
OFFICE BUILDING	240 DUNCAN MILL ROAD	170,000
INDUSTRIAL BUILDING	75 HORNER AVENUE	90,000
INDUSTRIAL BUILDING	25-49 COLDWATER ROAD	54,000
INDUSTRIAL BUILDING	310 JUDSON STREET	80,000
INDUSTRIAL BUILDING	110 MILNER AVENUE	30,000
INDUSTRIAL BUILDING	120 MILNER AVENUE	30,000
INDUSTRIAL BUILDING (50% SHARE)	3610 NASHUA DRIVE	56,000
INDUSTRIAL BUILDING	55 MILNER AVENUE	43,000
INDUSTRIAL BUILDING (50% SHARE)	150 TELSON ROAD	30,000
INDUSTRIAL BUILDING (50% SHARE)	6860 REXWOOD ROAD	70,000
INDUSTRIAL BUILDING	59 MILNER AVENUE	31,000
INDUSTRIAL BUILDING (50% SHARE)	3510 DERRY ROAD	3,000
INDUSTRIAL BUILDING (50% SHARE)	3530 NASHUA DRIVE	20,000
SERVICE STATION SITE	418 THE WESTWAY	

Under Construction

SHOPPING CENTRE	6611 FALCONER DRIVE	SQ. FT. 20,000
INDUSTRIAL BUILDING	124 MILNER AVENUE	63,000
INDUSTRIAL BUILDING	126 MILNER AVENUE	20,000
OFFICE BUILDING	220 DUNCAN MILL ROAD	125,000
CONVENIENCE CENTRE	6690 MONTEVIDEO DRIVE	5,000
INDUSTRIAL BUILDING (50% SHARE)	3688 NASHUA DRIVE	50,000
INDUSTRIAL BUILDING (50% SHARE)	3710 NASHUA DRIVE	62,000
APARTMENT HOTEL (16⅔% SHARE)	33 GERRARD STREET WEST	ROOMS 532 SUITES 288

Regina, Saskatchewan

REGINA CENTRE, HOTEL AND SHOPPING COMPLEX (50% SHARE)	1975 BROAD STREET	ROOMS 240

1974 was a good year for our established income properties. Vacancy rates were at a minimum, occupancy at the Regina Inn was at an all-time high and in most cases yields were at a satisfactory level.

The Company's Industrial Division undertakes development, construction and leasing of industrial properties and the sale of industrial sites in the Meadowvale Industrial Park. E. Reid Downey and Gordon Hunt are our Vice-Presidents responsible for this Division.

During 1974, we completed the leasing of 70,000 sq. ft. for light manufacturing and warehousing in Scarborough, Etobicoke and Mississauga. We also acquired a five acre industrial site on Islington Avenue in Etobicoke and construction of a building will begin at an early date. We purchased 70 acres of industrial land in Burlington which should be serviced and ready for development in 1975.

Currently the Industrial Division is constructing four buildings in Scarborough and the City of Mississauga, containing a total of 195,000 sq. ft. Primary construction of these buildings will be completed by the end of February 1975. About 52,000 sq. ft. is now being finished to tenants' specifications.

The United Co-operatives of Ontario and Robert Bosch Company established their plants in the Meadowvale Industrial Park during 1974. The Bank of Montreal, the Royal Bank of Canada, the Toronto-Dominion Bank and the Bank of Nova Scotia have opened branches in the area.

The Seltzer Organization completed and leased its first four storey office building during the year and will complete three more buildings on its office campus site during 1975. Medtronic of Canada Ltd. and Alcon Laboratories will complete buildings containing their Canadian corporate headquarters, manufacturing and warehousing facilities. This will bring to 23 the number of companies that have located in the Park. Two new industrial buildings, each with 42,000 sq. ft. of space, built by TLEG Investments Limited and Realcom Industries Limited, are nearing completion and are available for lease.

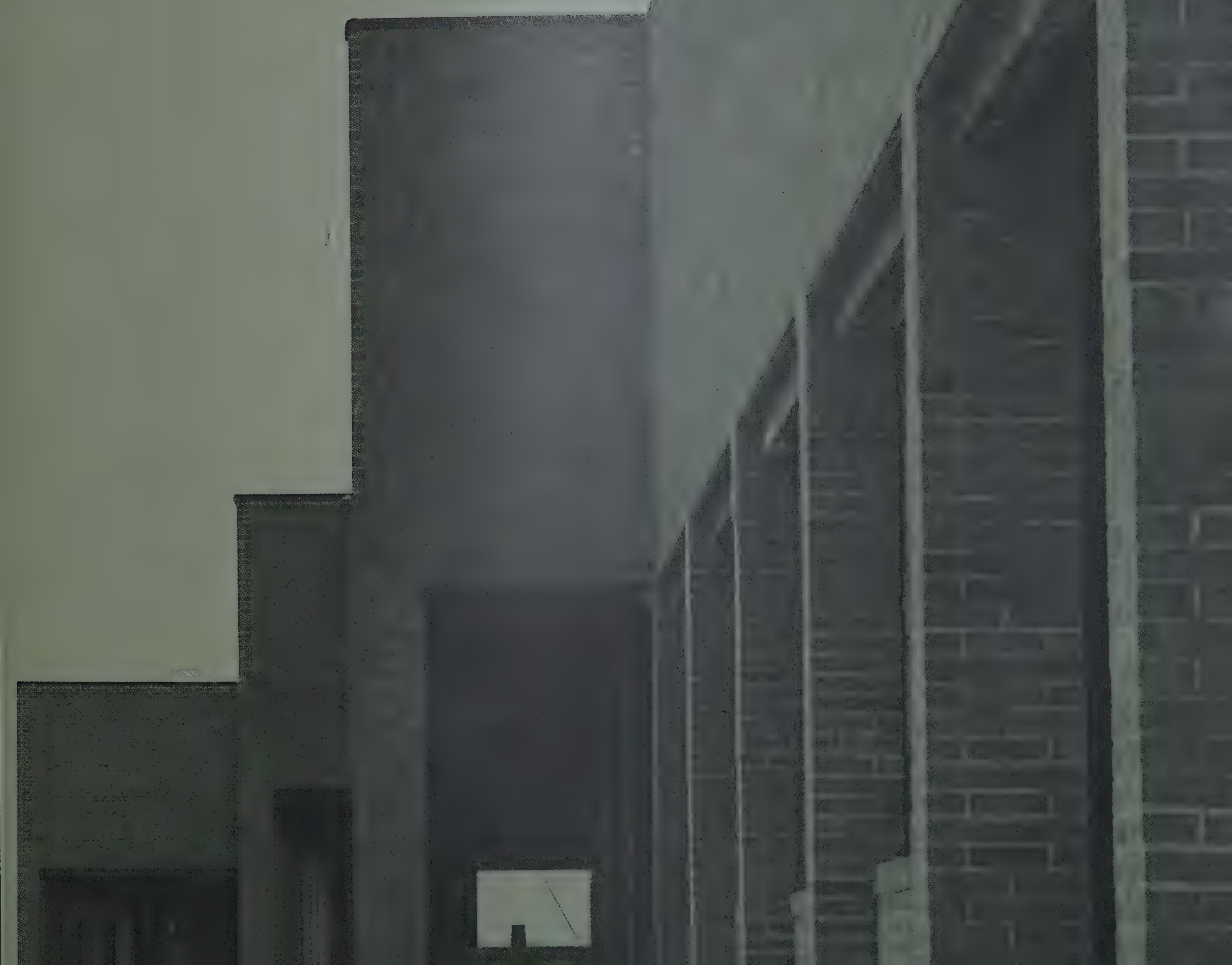
Companies located in Meadowvale Industrial Park

Control Data Canada Ltd.*
NCR Canada Ltd.*
Carter-Wallace N.S. Inc.*
Helena Rubinstein*
Dresser Industrial Products Ltd.*
Realcom Developments Ltd.
Mississauga Build-All
Bleecker Management Ltd.
N.T.N. Bearing-C.A.E. Ltd.
Minuk Construction and Engineering Co.
TLEG Investments Ltd.
Hutt Fence Ltd.
Homeco Investments Ltd
The Seltzer Organization (Canada) Ltd.*
Alcon Laboratories Ltd.*
United Co-operatives of Ontario
Menkes Developments Ltd.
Adir Construction Ltd.
Robert Bosch (Canada) Ltd.
Medtronic of Canada Ltd.
Bank of Montreal
Royal Bank of Canada
Toronto-Dominion Bank

*Corporate headquarters

Financial Statements

Multiple Industrial buildings.



Consolidated Statement of Income and Expenses

For the years ended October 31

Markborough Properties Limited

	1974	1973
Revenue from land operations	$12,914,800	$29,448,700
Less cost	7,420,900	17,185,200
Profit from land operations	5,493,900	12,263,500
Revenue from income properties	7,036,500	6,132,600
Less:		
Operating expenses	1,748,200	1,499,700
Mortgage and other interest	2,330,000	2,235,100
Realty taxes	1,151,700	1,096,600
Depreciation	683,100	681,200
	5,913,000	5,512,600
Profit from income properties	1,123,500	620,000
Interest and other income	2,051,600	592,000
Income before general and administrative expenses	8,669,000	13,475,500
General and administrative expenses:		
Executive and office salaries	529,000	534,600
Bank and debenture interest	182,700	146,500
Other	532,600	418,000
	1,244,300	1,099,100
Net income before income taxes	7,424,700	12,376,400
Provision for income taxes (Note 6):		
Current	4,175,000	597,000
Deferred	(279,000)	5,714,000
	3,896,000	6,311,000
Net income for the year	$ 3,528,700	$ 6,065,400
Earnings per share (based on weighted average of shares outstanding during the year) – (Note 10c)	$0.88	$1.53

Consolidated Statement of Retained Earnings

For the years ended October 31

	1974	1973
Retained earnings at beginning of year	$ 9,655,900	$ 3,590,500
Net income for the year	3,528,700	6,065,400
Retained earnings at end of year	$13,184,600	$ 9,655,900

Consolidated Balance Sheet
October 31

Markborough Properties Limited
(incorporated under the laws of Ontario)

Assets	1974	1973
Cash	$ —	$ 268,500
Short-term investments, at cost which approximates market	—	3,305,600
Accounts receivable	1,179,300	2,079,800
Mortgages and other secured receivables (Note 2)	16,533,100	22,550,800
Land (Note 3):		
For sale	8,640,300	6,683,400
For future development	60,458,400	34,735,500
	69,098,700	41,418,900
Prepaid expenses and other assets	909,800	1,154,400
Income properties (Note 3):		
Land	5,991,700	4,981,000
Buildings	37,826,000	37,281,400
Equipment	1,384,500	1,338,300
Construction in progress (Note 4)	5,378,000	339,700
	50,580,200	43,940,400
Less accumulated depreciation	4,425,000	3,741,900
	46,155,200	40,198,500
	$133,876,100	$110,976,500

Liabilities and shareholders' equity	1974	1973
Bank indebtedness (Note 5)	$ 3,980,300	$ —
Accounts payable and accrued liabilities:		
On construction and development in progress	3,010,800	3,151,000
Other, including accrued interest	2,196,000	2,473,100
Income taxes payable (Note 6)	3,595,700	597,000
Provision for development costs	6,148,500	7,443,500
Amounts payable under land purchase agreements (Note 7)	4,291,600	590,300
Sinking fund debentures (Note 8)	10,000,000	10,000,000
Mortgages payable (Note 9)	56,372,300	45,951,900
Deferred income taxes (Note 6)	10,140,000	10,419,000
	99,735,200	80,625,800
Shareholders' equity:		
Capital stock (Note 10):		
Authorized – 6,000,000 common shares, no par value		
Issued – 4,002,499 shares (1973 – 3,959,199 shares)	20,956,300	20,694,800
Retained earnings	13,184,600	9,655,900
	34,140,900	30,350,700
	$133,876,100	$110,976,500

On behalf of the Board: B.R.B.Magee, Director D.F.Prowse, Director

Consolidated Statement of Source and Application of Cash

For the years ended October 31

Markborough Properties Limited

	1974	1973
Cash was provided from:		
Operations–		
Net income for the year	**$ 3,528,700**	$ 6,065,400
Add expenses included therein not requiring a current outlay of cash–		
Depreciation	**683,100**	681,200
Income taxes, deferred	**(279,000)**	5,714,000
	3,932,800	12,460,600
Short-term investments	**3,305,600**	—
Amounts payable under land purchase agreements	**3,878,500**	—
Mortgages on income properties and land	**14,683,000**	15,291,300
Land, development and related costs realized through sales	**7,420,900**	17,185,200
Proceeds from issue of common shares	**261,500**	80,200
Increase in other liabilities	**4,002,300**	2,990,300
Decrease in accounts, mortgages and other secured receivables	**6,918,200**	—
Total cash provided	**44,402,800**	48,007,600
Cash was applied to:		
Land–		
Acquisition	**25,335,900**	12,256,900
Development and related costs	**10,113,300**	7,626,600
Carrying charges	**1,957,200**	972,300
Short-term investments	—	3,305,600
Increase in accounts, mortgages and other secured receivables	—	17,640,100
Income property construction	**5,629,100**	1,917,000
Income taxes	**1,176,300**	—
Amounts payable under land purchase agreements	**177,200**	466,600
Mortgage principal repayments–		
Income properties	**461,600**	374,100
Land	**3,801,000**	2,259,900
Total cash applied	**48,651,600**	46,819,100
Net (outgoing) incoming cash	**$(4,248,800)**	$ 1,188,500

Notes to Consolidated Financial Statements October 31, 1974

1. Summary of accounting policies

The accounting policies of the Company conform to generally accepted accounting principles and comply with guidelines published by the Ontario Securities Commission relating to the recognition of profits in real estate transactions. These policies are substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies.

a Principles of consolidation – The consolidated financial statements include the accounts of all subsidiaries and the Company's share of the assets, liabilities, revenues and expenses of both incorporated and unincorporated joint ventures in which it participates.

b Land and income properties – Land and income properties except for certain land acquired by amalgamation (see Note 3), are at cost which includes pre-development expenses and carrying charges (interest and real estate taxes).

The Company follows the practice, customary in the industry, of recording in its accounts as land for sale, the estimated cost on a fully developed basis of those parcels of land on which the planning, engineering, servicing and governmental authorization procedures are completed to the point that the land can be regarded as available for sale. The amount shown includes raw land costs and full provision for complete development costs as estimated. The liability for the unexpended portion of the estimated development costs is shown as provision for development costs.

c Depreciation policy – The buildings included in income properties are being depreciated on a 3%, 40 year sinking fund basis. Under this method depreciation is charged to income in an amount which increases annually, consisting of a fixed charge together with interest compounded at the rate of 3% per annum, so as to fully depreciate the buildings over a 40 year period. Equipment is being depreciated at 15% on a straight-line basis.

d Revenue from income properties – Revenue from income properties includes gross rental revenue from all the Company's properties except Regina Centre and the industrial buildings. Revenue from Regina Centre has been included after deducting direct operating expenses. Revenue from industrial buildings is on a net basis as operating expenses and realty taxes are paid for by the tenants.

e Conversion of foreign currencies – Transactions in United States currency are converted and recorded at the rates of exchange prevailing at the date of the transaction. Gains and losses on exchange are included in net income as realized.

2. Mortgages and other secured receivables

Mortgages and other secured receivables, which arise from land transactions, bear interest at an average rate of 8.8% and mature as follows:

Fiscal year ending October 31, 1975	$ 7,895,700
1976	5,950,700
1977	1,023,600
1978	1,663,100
	$16,533,100

Under certain conditions the amounts due may be paid prior to maturity.

3. Valuation of land and income properties

On August 12, 1965 Markborough Limited and Highbury Properties Limited amalgamated under the Ontario Corporations Act to form Markborough Properties Limited. Land originally held by Markborough Limited was recorded at cost. Land and income properties held by Highbury Properties Limited were recorded at approximately $1,800,000 less than the valuation at the date of amalgamation and approximately $4,100,000 in excess of the values recognized for income tax purposes. The potential tax liability created by this excess was taken into account in arriving at the values used.

Part of the property to which this excess applied has been sold and as a result the balance has been reduced to approximately $2,950,000 allocated as follows:

Income properties:		
Land	$1,100,000	
Buildings	300,000	
		$1,400,000
Land for sale or future development		1,550,000
		$2,950,000

The increment shown above relating to income properties will not result in additional

taxes unless the properties are sold. At the present time it is not the Company's intention to sell these properties.

The land for sale or future development subject to the increment is part of the Company's Meadowvale project. It is estimated that sales in this part of the project will extend over a nine year period and additional taxes of approximately $750,000 will be charged to income over that period.

Carrying charges accumulated to date on land for future development amount to $4,424,000, including $1,811,000 in the current year.

4. Construction in progress

Estimated cost to complete construction of seven projects in progress is approximately $6,185,000. Permanent financing on these projects will be arranged in due course.

5. Bank indebtedness

Bank indebtedness is secured by demand debentures creating a first floating charge on the assets of the Company and ranking ahead of the security for the sinking fund debentures (Note 8).

6. Income taxes

The Company's provision for income taxes has been calculated in accordance with generally accepted principles, by applying the income tax rate applicable to its 1974 fiscal year to net income earned during the year. The November 18, 1974 Federal Budget included proposals for a surtax on corporate profits from May 1, 1974 and a change in the amount of carrying charges (interest and real estate taxes) on land held for sale or future development, which will be allowed as a current deduction of taxable income. These proposals, if they become law, will affect the income taxes payable by the Company for the year ended October 31, 1974 and the effect of these proposals has been reflected in the provision for income taxes.

The amount of the 1974 provision that is currently payable, $4,175,000, is calculated by applying the same tax rate to the Company's taxable income which, because of certain sections in the Income Tax Act, is more than the net income shown in the Company's accounts. The section in the Income Tax Act which gives rise to the major difference between the Company's taxable and net income in 1974 allowed a deferment of tax on profits from land sales made in prior years until the proceeds were received in cash. The additional tax which arises from the receipt of these sales proceeds has been charged against the deferred income tax provisions made in prior years and included on the balance sheet as deferred income taxes.

7. Amounts payable under land purchase agreements

Under terms of various land purchase agreements the Company has incurred obligations related to land held for future development at an average interest rate of 6.2% which are repayable approximately as follows:

Fiscal year ending October 31, 1975	$1,180,400
1976	1,011,800
1977	1,011,800
1978	1,087,600
	$4,291,600

8. Sinking fund debentures

The sinking fund debentures, authorized at $10,000,000 and secured by a floating charge on the assets of the Company (subject to the security referred to in Note 5), bear interest at 8½% and are repayable in 1977 to 1986 inclusive, at $1,000,000 per year. In addition, under certain circumstances the principal outstanding at any time may be reduced by the exercise of the share warrants issued in connection with these debentures (See Note 10a).

9. Mortgages payable

Mortgages payable comprise the following:

On land for future development, at an average interest rate of 8.2% with varying repayment terms and maturing by 1991	$24,809,400
On income properties, at an average interest rate of 7.9% payable in equal instalments of principal and interest and maturing by 2004	31,562,900
	$56,372,300

Mortgages payable include $11,892,000 payable in United States funds. This amount has been converted at the exchange rates prevailing when the funds were received. Based on the October 31, 1974 exchange rate, the Company's liability on these mortgages is approximately $480,000 less than the amounts recorded. This amount will be taken into income if and when realized.

Principal repayments are due approximately as follows:

Fiscal year ending October 31, 1975	$	898,300
1976		1,568,700
1977		1,270,900
1978		3,203,900
1979		3,786,000
Subsequent to October 31, 1979		45,644,500
		$56,372,300

10. Capital stock

a In connection with the issue of $7,000,000 sinking fund debentures in 1971, warrants were issued during that year entitling the holders thereof to purchase 400,000 common shares of the Company at a price of $8 if exercised on or before January 30, 1977 and thereafter at a price of $9.50 if exercised on or before January 30, 1982. On the issue of the remaining $3,000,000 sinking fund debentures in 1972, warrants were issued during that year entitling the holders thereof to purchase an additional 171,429 common shares at a price of $8 if exercised on or before January 30, 1978 and thereafter at a price of $9.50 if exercised on or before January 30, 1983. During the year warrants related to debentures issued in 1972 were exercised resulting in the issue of 15,000 common shares for a total cash consideration of $120,000. For the purpose of the warrants still outstanding 556,429 common shares have been reserved. Under certain circumstances the above warrants may be exercised by an equivalent reduction in outstanding sinking fund debentures.

b On the exercise of options during the year, the Company issued 28,300 common shares for a total cash consideration of $141,500. No options were granted during the year, none were outstanding at the year end and 9,000 shares are reserved for granting of future options.

c If the 556,429 outstanding warrants were exercised and the funds derived invested at 10%, the Company's fully diluted earnings per share would be $0.82 (1973 – $1.38 assuming funds invested at 9%).

11. Contingent liability

The Company is contingently liable at October 31, 1974 for $7,600,000 representing the liabilities of its co-owners in unincorporated joint ventures but against such contingent liability the Company would have a claim upon the joint venture assets of its co-owners. The value of these joint venture assets exceeds the contingent liability.

12. Remuneration to directors and senior officers

The aggregate direct remuneration paid or payable to the directors and eight senior officers of the Company as defined in the Ontario Business Corporations Act (nine in 1973) in respect of the year ended October 31, 1974 was $403,000 (1973 – $558,000).

Auditors' Report

To the Shareholders of Markborough Properties Limited

We have examined the consolidated balance sheet of Markborough Properties Limited and its subsidiaries as at October 31, 1974 and the consolidated statements of income and expenses, retained earnings and source and application of cash for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at October 31, 1974 and the results of their operations and the source and application of their cash for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co., Chartered Accountants

Toronto, Canada December 5, 1974

Five Year Comparison

	1974	1973	1972	1971	1970
Operating results for the year					
Revenue from land operations	**$12,914,800**	$29,448,700	$7,046,800	$ 3,465,700	$ 4,002,000
Revenue from income properties	**7,036,500**	6,132,600	5,233,700	4,953,500	4,754,200
Income before taxes	**7,424,700**	12,376,400	2,041,500	1,057,100	1,426,700
Net income after taxes	**3,528,700**	6,065,400	984,500	540,100	694,700
Per common share (weighted average) :					
Net income after taxes	**$0.88**	$1.53	$0.26	$0.15	$0.19
Cash flow from operations	**0.98**	3.15*	0.70	0.44	0.54

*Re-stated from $2.96 for comparative purposes

	1974	1973	1972	1971	1970
Financial position at the year-end					
Undeveloped land	**$60,458,400**	$34,735,500	$27,778,300	$27,984,900	$25,591,900
Income properties	**46,155,200**	40,198,500	38,095,500	35,772,000	31,373,300
Bank debt	**3,980,300**	—	920,000	1,434,900	1,335,200
Amounts payable under land purchase agreements	**4,291,600**	590,300	1,056,900	1,145,900	460,000
Mortgage and debenture debt	**66,372,300**	55,951,900	43,294,600	39,762,300	32,194,800
Share capital	**20,956,300**	20,694,800	20,614,600	18,590,600	18,590,600
Retained earnings	**13,184,600**	9,655,900	3,590,500	2,606,000	2,065,900

	1974	1973	1972	1971	1970
Statistical at the year-end					
Common shares outstanding	**4,002,499**	3,959,199	3,944,299	3,652,294	3,652,294
Number of shareholders	**325**	1,872	2,390	2,425	2,476
Ratio of income properties to land held for development	**.8 to 1**	1.2 to 1	1.4 to 1	1.3 to 1	1.2 to 1
Ratio of debt to equity	**2.2 to 1**	1.9 to 1	1.9 to 1	2.0 to 1	1.6 to 1

Directors

D.S.Anderson
Chairman
Canada Realties Limited
Toronto

A.R.Grant
President
George Wimpey Canada Limited
Toronto

G.C.Gray
President
A.E.LePage Limited
Toronto

The Right Honourable Viscount Hardinge
Honorary Chairman
Greenshields Incorporated
Montreal

Captain J.Jeffery
Chairman of the Board
London Life Insurance Company
London

H.P.Langer
Executive Vice-President
Markborough Properties Limited
Toronto

A.J.MacIntosh
Partner
Blake,Cassels & Graydon
Toronto

B.R.B.Magee
Chairman of the Board
A.E.LePage Limited
Toronto

P.M.McEntyre
President
Commercial Trust Company Limited
Montreal

D.S.McGiverin
President and Chief Executive Officer
Hudson's Bay Company
Toronto

J.G.W.McIntyre
Vice-President,Retail Development
Hudson's Bay Company
Toronto

D.W.Pretty
President
North American Life Assurance Company
Toronto

D.F.Prowse
Executive Vice-President
Markborough Properties Limited
Toronto

J.L.Toole
Chairman
C.N.Investment Division
Vice-President
Canadian National Railways
Montreal

P.W.Wood
Vice-President,Finance
Hudson's Bay Company
Toronto

Officers

Brian R.B.Magee F.R.I.,S.I.R.,C.R.E.
Chairman of the Board and President

Donald S. McGiverin
Deputy Chairman of the Board

H.Peter Langer F.R.I.,S.I.R.
Executive Vice-President

Donald F.Prowse B.A.,C.A.
Executive Vice-President

John B.Alguire B.A.SC.,P.ENG.
Vice-President

Kenneth C.Comyns B.A.I.,M.A.,P.ENG.
Vice-President

George H.Mundy C.A.
Vice-President and Treasurer

Ronald C.Brown B.A.
Secretary

Legal Counsel
Blake,Cassels & Graydon
Toronto
Harries,Houser,Brown & McCallum
Toronto

Auditors
Price Waterhouse & Co.
Toronto

Transfer Agent and Registrar
Canada Permanent Trust Company
Toronto,Montreal,Halifax,Winnipeg,Calgary
and Vancouver

Securities Listed
Montreal Stock Exchange
Toronto Stock Exchange

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